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HEADLINE: Field days here for Macy's rivals;
Other high-end stores in the area were quick to offer space when designers loyal to Field's were displaced

BYLINE: By Sandra Jones, Tribune staff reporter

BODY:

It's taking longer than expected to win over shoppers to the converted Macy's stores in the Midwest, Federated Department Stores Inc. executives acknowledged Tuesday after the company reported year-end earnings.

But the change has been a boon to some high-end retailers in Chicago.

The conversion of Marshall Field's to Macy's has opened the door for Neiman Marcus and Nordstrom to carry designers that until recently had exclusive arrangements with Marshall Field's.

Federated said net income for the quarter ended Feb. 3 rose 4.9 percent to \$733 million, or \$1.40 a share, from \$699 million, or \$1.26 a share, a year earlier.

Sales at the former May stores have fallen since the conversion, but are improving as of December and are expected to improve in the second half, said Terry Lundgren, chairman and CEO of the New York-based retailer, in an interview on CNBC.

"It has taken a little longer than I expected on one single line and that was the new May Co. doors performing to the level that we needed them to perform to," Lundgren said.

In the wake of its 2005 acquisition of May Department Store Co., Federated converted 11 department store nameplates, including Marshall Field's, to Macy's in September.

In doing so Federated more than doubled the size of Macy's to 800-plus department stores nationwide.

But by doing so in Chicago Federated left open the door for other retailers to come in and snag some snazzy designers who had remained loyal to Field's.

Among the biggest coups: Neiman Marcus on Michigan Avenue is offering the YSL designer collection for the first time starting with the spring season. Marshall Field's had an exclusive arrangement with the French fashion house for years. Neiman's carried the YSL handbags, but not the coats, pantsuits and cocktail dresses that made up the apparel collection.

That changed when YSL left when Field's became Macy's.

A Coach shop and an alcove of a small selection of designer handbags replaced the YSL handbag boutique that had operated on the first floor of the State Street store since 2002. Vera Wang dresses now hang in the lush, black-carpeted alcove created for the YSL collection in 2001 at State Street's 28 Shop.

Likewise, Nordstrom had been trying to get jewelry designer David Yurman in its Oak Brook store for a decade with no success. When the designer left Field's during the conversion to Macy's Nordstrom picked up the line, opening an in-store David Yurman jewelry boutique at its Oak Brook store in November.

Nordstrom also picked up shoes from Prada, no longer available at the Field's-turned-Macy's, and expanded its Jimmy Choo collection, another designer that departed (this sentence as published has been corrected in this text).

"Macy's is a mainstream store and people are going to expect sales and discounts and commodity items and they're not going to be expecting designers," said Milton Pedraza, CEO of the Luxury Institute, a New York-based retail-consulting firm.

Most of the converted stores acquired from May didn't carry designer lines.

Indeed, Federated executives said customers at the former May stores, including L.S. Ayres and Famous-Barr, are having trouble adjusting to the less-promotional environment of Macy's.

The dilemma has left Macy's without a clear-cut niche, analysts said. Some customers view it as too expensive, others as too cheap.

"They're still trying to figure out who their customer base is because there were so many stores converted," said Jason Asaeda, analyst at the equity research division of Standard & Poor's credit rating agency.

"It could take a year to figure out who's shopping at their stores," Asaeda said.

Asaeda downgraded Federated to a "hold" from a "buy" on Tuesday, saying that "weak sales trend and higher markdown levels imply that customers and employees need more time to buy into changes."

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